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Before the FEDERAL COMMUNICATIONS COMMISSION

Washington, DC 20554

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In the Matter of

Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 CC Docket No. 96-98

To: The Commission

REPLY COMMENTS OF TIME WARNER COMMUNICATIONS HOLDINGS, INC.

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Date:

May 30, 1996

No. of Copies rec'd

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SUMMARY

In these reply comments, Time Warner Communications Holdings, Inc. ("TW Comm") responds to several of the issues raised in other parties' initial comments. TW Comm's responses are guided by the same three overriding public policy objectives upon which its initial comments were developed. Namely, telecommunications service competition, as envisioned by the 1996 Telecommunications Act, is <u>national</u> policy for which the Commission should establish nationally-uniform rules and regulations; to ensure meaningful competition, facilities based competition must exist and the Commission's rules should encourage investment in competing networks rather than create artificial pricing advantages for those who resell incumbent local exchange carrier ("ILEC") services; and finally, because incumbent monopolists have both the incentive and the ability to delay competition, the rules established in the proceeding should be designed to eliminate the ability of ILECs to act on those incentives and to engage in anticompetitive behavior.

Based on these three principles, TW Comm joins with commenters such as AT&T, the U.S. Department of Justice and others in supporting the Commission's tentative conclusion that Sections 251 and 252 of the Act are intended to apply to all aspects of local telecommunications competition without regard to jurisdictional

boundaries and that the Commission should adopt comprehensive, nationally-uniform rules which would serve to guide the states in their implementation responsibilities. TW Comm believes that such an approach would ensure that interconnection, including collocation, unbundled network elements, and resale of ILEC services are available throughout the nation in a uniform manner, and ensure that the prices for those functions and services are established in a consistent manner.

In advocating national standards, TW Comm wants to make it clear that it does not intend that national rules should be so detailed and so comprehensive as to preclude any opportunity for negotiation. Instead, the Commission should establish minimum baseline requirements sufficient to ensure that the pro-competitive objectives of the 1996 Act can be met in all states and throughout all regions of the country, irrespective of the incentives of ILECs to forestall competition and irrespective of the resources of state commissions.

Several states assert in their comments that states may impose statutory obligations designed for ILECs on new entrants. This conclusion is at odds with the plain language of the 1996 Act. That the 1996 Act establishes one set of obligations for all local exchange carriers (including new entrants) and another more extensive set of obligations for ILECs is purposeful. The

differing standards reflect Congressional recognition that development of local competition requires cooperation and the opening of networks by all providers to all providers, while at the same time acknowledging that ILECs' continued monopoly power and bottleneck control of essential facilities necessitates imposition of additional obligations. Based considerations, Congress authorized the Commission, and only the Commission, to establish rules for the treatment of LECs as ILEC for purposes of Section 251(c) obligations. Such treatment is not warranted at this time and the states have no independent authority to make such a finding.

TW Comm also reiterates its support for the Commission's tentative conclusion that any point of interconnection should be presumptively technically feasible and that those claiming a point of interconnection not to be technically feasible must bear the burden of providing allegations of network harm.

In order to develop competing facilities-based networks and establish true competition, wholesale rates for resale should be set at retail rates less only costs that are actually avoided by providing service for resale. By artificially encouraging arbitrage of ILEC services rather than investment in competing networks, the policies advocated by proponents of non cost-based wholesale rate discounts would promote continued local market

domination by ILECs by protecting their status as the only facilities-based providers in their local service areas. Such a result is fundamentally inconsistent with the pro-competitive policies underlying the 1996 Act.

TW Comm takes exception to ILEC commenters who have disregarded the plain language of the 1996 Act in advocating "make-whole" pricing standards that would continue their ability to recover traditional monopoly rents. Instead, it is clear that the 1996 Act requires that the pricing of interconnection, including collocation and certain unbundled network elements be based on TSLRIC, and prohibits ILEC recovery of residual or legacy costs.

With respect to pricing for the transport and termination of telecommunications traffic, it should first be noted that most commenters simply ignore the difference in language and assert that pricing standards should be the same for transport and termination as for interconnection and network elements. This is simply wrong. If Congress had intended the exact same pricing standard to apply, it would not have included a different pricing standard for the former than for the latter. Moreover, the only interpretation of the "additional cost" standard for transport and termination is that of Long Run Incremental Costs.

In its initial comments, TW Comm demonstrated that bill-andkeep is the most appropriate arrangement for reciprocal

compensation for the transport and termination of traffic on competing LEC networks and that the Commission can, and should, adopt this compensation mechanism. Although numerous commenters agreed with this position, certain ILECs argue that (1) the 1996 Act prohibits the Commission or the states from imposing a bill-and-keep system; and (2) even if such authority exists, doing so would be an unconstitutional taking under the Fifth Amendment. These arguments are fundamentally flawed.

There is nothing in the 1996 that prohibits the Commission from mandating bill-and-keep, and in fact, the Commission has such authority pursuant to Section 251(d)(1) of the Act. Nor would bill-and-keep violate the Fifth Amendment. Bill-and-keep does not rise to the level of a taking for purposes of Fifth Amendment analysis, and even assuming it did, an ILEC would receive just compensation.

Finally, Section 252(i) clearly requires that each interconnection service or network element made available pursuant to an agreement shall be made available to other telecommunications carriers on the same terms and conditions. Despite the novel, but incorrect interpretation of Ameritech, Section 252(i) is not applicable to agreements. By its very terms, this section is applicable to interconnection, services, and network elements.

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, DC 20554

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To: The Commission

REPLY COMMENTS OF TIME WARNER COMMUNICATIONS HOLDINGS, INC.

Time Warner Communications Holdings, Inc. ("TW Comm"), by its attorneys, hereby submits its reply comments on the Commission's notice of proposed rulemaking in the above-captioned proceeding.1

INTRODUCTION

In its initial comments, TW Comm addressed many of the issues raised in the Notice. TW Comm's positions on all of those issues were guided by three overriding public policy objectives which were stated at the outset of TW Comm's comments. Those objectives 1) Under the Telecommunications Act of include the following: 1996, telecommunications service competition at all levels -interstate and intrastate, local and long distance -- is national policy. To effectuate that national policy, the Commission should prescribe nationally-uniform rules governing local competition, interconnection, collocation, unbundled network elements, resale, and the pricing of those functions; 2) for telecommunications

¹Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (Notice of Proposed Rulemaking), FCC 96-182, released April 19, 1996 (hereinafter "Notice").

competition to be meaningful competition, competing services must be available over separate and competing network facilities. Thus, the rules established by the Commission should encourage investment in competing networks and should not create artificial non-costbased pricing advantages for those who seek to compete solely by the resale of incumbent local exchange carrier ("ILEC") services; incumbent monopolists have incentives to competition and the ability to do so through such tactics as refusing to negotiate in good faith with prospective competitors, use of federal and state regulatory processes to erect and maintain barriers to competition, and pricing of facilities and services which are essential to competitors' ability to provide service in a manner which makes those essential services unavailable to competitors or at least uneconomic for competitors to use. promulgated in this proceeding should be designed in a manner which eliminates the ability of ILECs to act on those incentives and to engage in such anticompetitive tactics.

In these reply comments, TW Comm will respond to several of the issues raised in other parties' initial comments. TW Comm's responses to those other parties' comments are guided by the same three overriding policy objectives upon which its initial comments were developed. TW Comm continues to believe that those three public policy objectives are central to the many issues before the Commission in this proceeding, and it urges the Commission to

remain mindful of those goals as it considers promulgation of specific rules and regulations to implement Sections 251 and 252 of the Communications Act -- sections which were added to the Act by the Telecommunications Act of 1996 (hereinafter the "1996 Act").

I. Attainment Of The Pro-Competitive Objectives Of The 1996 Act Requires Establishment Of Nationally-Uniform Rules Governing Interconnection, Unbundled Network Elements, Collocation, And Resale, And Governing The Negotiations And Agreements To Be Effectuated Under Sections 251 And 252

The initial comments reflect considerable disagreement among commenting parties regarding the scope of the regulations to be adopted by the Commission and regarding the respective roles of the Commission and state regulators in implementing the 1996 Act. Many commenters, including TW Comm, AT&T Communications, the United States Department of Justice and others, concur with the Commission's tentative conclusion stated in the Notice that Sections 251 and 252 of the Act are intended to apply to all aspects of local telecommunications competition without regard to jurisdictional boundaries. They urge the Commission to adopt comprehensive, nationally-uniform rules which would guide the states in their implementation responsibilities, which would ensure that interconnection, unbundled network elements, collocation, and

²See, e.g., comments of the Association for Local Telecommunications Services ("ALTS"), the Competitive Telecommunications Association ("CompTel"), Teleport Communications Group ("Teleport"), and Frontier Corporation.

resale of ILEC services are available throughout the nation in a uniform manner, and which would require that the prices for those functions and services are established in a consistent manner.

Other commenters, including several of the Bell Operating Companies ("BOCs"), the United States Telephone Association, and several of the state commissions, oppose Commission adoption of comprehensive national regulations. Commenting ILECs argued that ILECs and prospective competitors should be free to negotiate agreements ontheir own without having to conform their arrangements with federally-mandated standards. Those ILECs also assert that they and their prospective competitors do not possess unequal bargaining power. As one of those ILECs -- Ameritech -claims, assertions of vastly superior ILEC bargaining power in negotiations between ILECs and prospective competitors "overstated."³ Some state regulators dispute that the 1996 Act even confers jurisdiction on the Commission over the intrastate aspects of local competition, including interconnection.4

Notwithstanding the assertions of those who would limit the Commission's role in establishing a national framework for implementation of the 1996 Act, it is clear that the Act obligates

 $^{^{3}}$ See, e.g. comments of Ameritech at 8, See also comments of SBC Corporation at 8-15.

 $^{^4}$ See, e.g. comments of the Public Utilities Commission of Ohio at 12-17.

the Commission to do just that. As stated by AT&T, "the Act unequivocally requires that the Commission has not only the authority but also the duty to adopt such [explicit national] regulations in this proceeding."

Significantly, the United States Department of Justice ("DOJ") unqualifiedly supports promulgation of national rules by the Commission. Unlike most other commenters, DOJ has no private strategic agenda to be advanced in this proceeding. Its responsibility is enforcement of the antitrust laws and promotion of competition. In fulfillment of those responsibilities, DOJ has been extensively involved in monitoring competitive developments in the telecommunications industry, in enforcing the provisions of the Modification of Final Judgment and investigating compliance with that decree's requirements, and in participating in previous Commission proceedings involving competitive telecommunications policy. Based upon that experience, DOJ includes establishment of national rules on interconnection among the fundamental principles set forth in its comments. As stated by DOJ:

. . . the Act contemplates, and rapid successful local entry requires, <u>national</u> rules governing incumbent

⁵AT&T comments at 3.

Gunited States v. American Telephone and Telegraph Company, 552 F. Supp. 131 (D.D.C. 1982), aff'd. sub nom. Maryland v. United States, 460 U.S. 1001 (1983), decree terminated United States v. Western Electric Co., Inc. 1996-1 Trade Cases p. 71,364, 1996 WL 255904 (D.D.C. issued April 11, 1996).

> obligations to provide the basic prerequisites for entry, including clear national rules governing the scope of unbundling and interconnection requirements and the principles governing the prices at which essential services and facilities of incumbent monopolists will be provided to entrants. Carefully devised national standards can facilitate the mutual federal/state efforts implement the Act. Negotiations with incumbent monopolists will not succeed in the absence of clearly established legal parameters for such negotiations. The Act reflects basic economic theory, long experience, and common sense in recognizing that without such parameters, incumbent monopolists would only grudgingly negotiate arrangements to facilitate competitive entry. Since competitors need access to a wide variety of facilities and services of the monopolists in order to enter these expeditious successfully, in the contemplated by the Act, the parameters for such access must be clearly articulated in Commission rules to guide the states and meviewing courts.

TW Comm's experience in attempting to negotiate interconnection arrangements with ILECs in the absence of federal standards confirms DOJ's conclusions. As noted in its initial comments, TW Comm has been authorized by the Public Utilities Commission of Ohio since August 1995 to provide local service in competition with ILECs, including Ameritech Ohio and Cincinnati Bell. To date, it has been unable to reach agreements with those to interconnect despite attempting to interconnection arrangements since 1994.8 Despite the efforts of the Ohio Commission to assist TW Comm and Ameritech to reach a

⁷DOJ comments at 5-6 (emphasis original).

⁸See TW Comm's comments at 9-10, 18-20 for details regarding TW Comm's unsuccessful efforts to negotiate with Ameritech.

comprehensive agreement which would enable TW Comm to begin to provide local service in Ohio, those efforts have failed. In TW Comm's view, they have failed for two reasons: 1) one of the parties -- Ameritech -- has no incentive to allow a prospective competitor to interconnect on terms other than those most favorable to it, since any interconnection agreement will hasten the end of its monopoly, and 2) the absence of national baseline standards has deprived the Ohio Commission of any model on which to base acceptable interconnection arrangements for Ohio. In TW Comm's view, the wisdom of DOJ and the experience gained in Ohio convincingly demonstrate the necessity for national interconnection regulations in order to advance the objectives of the 1996 Act.

In advocating Commission promulgation of national rules, TW Comm does not intend that those rules should be so detailed and so comprehensive as to preclude any opportunity for negotiating parties to address specific circumstances of individual markets or individual companies business plans. TW Comm does not believe that Commission rules should be so detailed and specific so as place negotiating parties in a "regulatory straitjacket." In this regard, the rules promulgated herein should not be developed at a level of detail comparable to the jurisdictional separations rules codified at Part 36 of the Commission's rules and regulations, or the Part 69 access charge rules. They should, however, establish minimum baseline requirements sufficient to ensure that the pro-

competitive objectives of the 1996 Act can be met in all states and throughout all regions of the nation, irrespective of the incentives of ILECs to forestall competition, and irrespective of the resources of state commissions.

Some parties have asserted in their initial comments that national regulations are not needed, that ILECs and competitors will be able to negotiate interconnection arrangements on their own. No doubt those parties will be cheered by, and in their reply comments will cite to, the recent interconnection agreement announcements of several ILECs, including that of Ameritech. TW Comm is encouraged by such announcements and commends the parties involved in reaching those accords. However, relatively little is known about those agreements, and from what little is known, it cannot be determined whether those agreements will be approved by state commissions or whether they will pass muster under the standards of Sections 251 and 252.

This is especially so with regard to the recently-announced agreement between Ameritech and MFS. Whether or not that agreement satisfies MFS's needs based upon its business strategy, it cannot be determined whether the terms of that agreement would meet the needs of other prospective local exchange service providers, or whether it would meet the statutory standards of the 1996 Act. What is known is that MFS is committed to providing competing local service primarily, if not exclusively, to business customer markets

in limited geographic areas. While the terms of the agreement between MFS and Ameritech may meet MFS's needs to serve those limited markets, there is no basis for concluding that the agreement would meet the needs of companies like TW Comm and others which plan to be facilities-based full service providers throughout local exchange areas, including provision of service to residential markets.⁹

Neither do alleged geographic differences among states support the notion that nationally-uniform rules are not appropriate. As AT&T noted in its comments, there may be geographic differences among areas served by ILECs as well as differences in the network equipment and architectures deployed by ILECs. Indeed, these differences may compel flexibility in interconnection arrangements, including pricing, under the Act. However, there is no basis for concluding that these differences occur along state lines. Such differences may reflect variations in geography, population density or other factors. Those factors are not unique to individual states, but are found in many areas of different states. Thus, those differences should be acknowledged and accommodated in the national rules promulgated by the Commission. 10

⁹See News Release "Time Warner Says Ameritech Deal with MFS Will Not Satisfy Competitive Checklist Requirement" issued by Time Warner Cable May 23, 1996. A copy of that news release is attached hereto as Attachment 1.

¹⁰AT&T comments at 12.

For all of the foregoing reasons, TW Comm reiterates its position articulated in its initial comments that fulfillment of the Commission's statutory responsibilities as well as sound public policy compel that national baseline regulations and standards are adopted by the Commission to guide the states in performing their mediation, arbitration, and interconnection agreement approval obligations in a nationally uniform manner.

II. The 1996 Act Establishes Different Obligations For ILECs Than For Other LECs, And The States Have No Authority To Impose Statutory ILEC Requirements On Other LECs

In the <u>Notice</u> (at ¶45), the Commission invited comment on the whether state commissions have the authority to impose the 1996 Act's statutory ILEC obligations on others. Several states, including the Ohio Commission, assert in their comments that states may impose those statutory ILEC obligations on new entrants. TW Comm disagrees with that conclusion, and finds no support for it in the 1996 Act.

As TW Comm noted in its comments, no aspect of the 1996 Act will be more critical to establishment of local telecommunications competition on a national basis than the establishment of specific obligations for ILECs codified at Section 251(c). 12 The fact that the 1996 Act establishes one set of obligations for all local

¹¹Ohio PUC comments at 21-22.

¹²TW Comm comments at 13.

exchange carriers ("LECs"), including new entrants, and another, more extensive set of obligations for ILECs reflects Congressional recognition that development of local competition requires cooperation and opening of networks by all providers to all providers, while at the same time acknowledging that ILECs' continued monopoly power and bottleneck control of essential facilities necessitates the imposition of additional obligations on those carriers to open local service markets to competition.

Congress also acknowledged that circumstances might come about in the future which would warrant imposition of some or all of those special ILEC obligations of Section 251(c) on other LECs. That possibility is addressed in the Act by codification of the circumstances when imposition of ILEC obligations on others will be permissible, and by specifically granting the authority to make those determinations exclusively to the Commission. In this regard, the Commission's attention is directed to Section 251(h)(2). That subsection authorizes the Commission -- and only the Commission -- to establish rules for the treatment of LECs as ILECs for purposes of the Section 251(c) obligations, based on the following circumstances:

- (A) such carrier occupies a position in the market for telephone exchange service within an area that is comparable to the position occupied by the carrier described in paragraph (1) [i.e. the ILEC];
- (B) such carrier has substantially replaced

an incumbent local exchange carrier described in paragraph (1); and

(C) such treatment is consistent with the public interest, convenience, and necessity and the purposes of this section.¹³

It is a fundamental axiom of statutory construction that in interpreting statutes, specific provisions take precedence of general provisions. 4 Since the 1996 Act addresses with specificity who is authorized to impose ILEC obligations on other LECs (i.e. the Commission), and the standard that the Commission is to follow in exercising that authority, the Ohio Commission's reliance on the states' Section 252(e) general authority to approve interconnection agreements, or the states' authority at Section 253(b) to adopt on a competitively neutral basis requirements necessary to preserve and advance universal service, protect the public safety and welfare, ensure the continued quality of telecommunications service, and safeguard rights of consumers, does not support state displacement of the Commission in making Section 251(h)(2) determinations.

III. Interconnection At "Any Technically Feasible Point"

Is Not Limited To End Offices And Tandem Offices

Section 251(c)(2)(B) of the Act obligates ILECs to

¹³47 U.S.C. §251(h)(2).

¹⁴See, e.g., <u>Varity Corporation v. Howe</u>, 116 S. Ct. 1065 (1996), <u>Morales v. Trans World Airlines</u>, <u>Inc. et al.</u>, 504 U.S. 374 (1992).

interconnect their networks with those of other telecommunications carriers at "any technically feasible point within the carrier's network." In its initial comments, TW Comm expressed its agreement with the Commission's tentative conclusion that any point of interconnection should be presumptively technically feasible and that those claiming a point of interconnection not to be technically feasible must bear the burden of proving allegations of network harm. 15

Consistent with the view that the 1996 Act and regulations promulgated thereunder should afford reasonable flexibility to develop interconnection arrangements based on specific circumstances and evolving technology and needs, many commenters concurred with TW Comm and with the Commission's tentative conclusion on technically feasible points of interconnection. 16 Some commenters, however, asserted that the Commission's rules should require interconnection only at ILEC central offices and tandem offices, with other interconnection points negotiation between carriers. TW Comm does not agree that technically feasible interconnection points required by the Commission should be limited to central offices and tandems. Those

¹⁵TW Comm comments at 29-30.

 $^{^{16}\}underline{\text{See}}$ e.g., AT&T Corp. comments at 31-33; MCI Communications comments at 10-19; Sprint Corporation comments at 14-15; Teleport Communications Group, Inc. comments at 23-25; MFS Communications Company, Inc. comments at 15-16.

parties who oppose the more flexible interconnection standard suggested in the <u>Notice</u> have provided no justification for their opposition to the Commission's proposal to place the burden of proving an interconnection point not to be technically feasible on the entity objecting to that interconnection point.

Ameritech proposes to establish a set of "core" requirements that limit mandatory technically feasible points of interconnection to ILEC end offices or tandem offices. 17 It also states that the "core" interconnection requirements should be limited "to what is already technically feasible interconnection." Ameritech would relegate other technically feasible points of interconnection to negotiations between the parties. 19 Ameritech's concept of establishing limited "core" obligations would dilute the statutory requirement that an ILEC provide interconnection at any technically feasible point within the ILEC's network. The statutory language mandates interconnection at any technically feasible point. Rather than enumerate every conceivable technically feasible point, the Commission has reached the reasonable tentative conclusion that any point of interconnection should be presumptively technically feasible and that those claiming a point of interconnection not to

¹⁷Ameritech comments at 13-14.

 $^{^{18}}Id.$ at 13.

¹⁹Id. at 14.

be technically feasible bear the burden of proving the technical infeasibility of the requested point. Since an ILEC will have the burden of demonstrating that a requested point is not technically feasible, a presumption of technical feasibility attaches to each requested point of interconnection.

Moreover, Ameritech's static view that the "core" requirements should be limited "to what is already technically feasible interconnection" is inconsistent with the evolving nature of telecommunications technologies and network configurations. Finally, TW Comm submits that leaving the issue of whether a requested point of interconnection is technically feasible to negotiations between the parties without a presumption that all such points are technically feasible will only complicate -- and delay -- the negotiation process.

Some commenters seek to differentiate between technical feasibility and technical possibility.²⁰ This is an interesting but ultimately unnecessary distinction. SBC's use of high costs as a reason why something that is technically possible is not feasible ignores the fact that Congress used the term "technically feasible," not "economically feasible."²¹ As the Commission has

²⁰SBC comments at 25-29; US West comments at 48-54.

²¹Similarly, USTA's reliance on past Commission statements concerning the role of economic considerations in defining the term "technical feasibility" is misguided. USTA comments at 12. In neither of the two proceedings cited by USTA was the Commission

stated in discussing the use of the term "technically feasible" and the absence of the term "economically reasonable" in Section 253(c)(3) of the 1996 Act, "[w]e note that the 1996 Act uses the terms 'technically feasible' and 'economically reasonable' together in other sections of the Act." The absence of the term "economically reasonable" from Section 251(c)(2) indicates Congressional intent not to include economic reasonableness as a condition on the required availability of "any technically feasible" point of interconnection. 23

Similarly, SBC's stated objection that network reliability and efficiency will suffer if networks are forced to open at "too many" points professed to be technically feasible is unsupported and speculative. Moreover, if such a situation were to occur, SBC would have the opportunity to present detailed information to prove alleged harm to network reliability as a grounds for a finding of technical infeasibility.

Several commenters offer the Commission guidelines on how the

bound by statutory language and construction which, as in this case, clearly indicates Congressional purposefulness in not including a reference to "economic reasonableness" or "economic feasibility."

²²Notice at ¶88. Congress used the two terms together throughout Section 254 of the 1996 Act.

²³See H. Rep. 104-204 at 71 (The House Committee dropped the term "economically reasonable" from its network element unbundling provision because it did not want such a requirement to make certain unbundled elements unavailable.)

term "technical feasibility" should be interpreted. Some of these criteria or guidelines convey the unspoken "as is" principle wherein "technical feasibility" is judged solely on the basis of the network as it is, without any adjustments, modifications or alterations. While it is unrealistic to expect that ILECs should transform their networks in order to accommodate requested points of interconnection, it is equally unrealistic to allow ILECs to deny requests for points of interconnection simply because minor adjustments, modifications or alterations to their networks would be required. For example, USTA, Cincinnati Bell and SBC would eliminate any network interface that would require "unique or special handling." SBC would reject any point of interconnection that requires any alteration of its network. These ILEC attempts at narrowing the points of interconnection that would be considered technically feasible must be rejected.

Several commenters question the Commission's tentative conclusion that interconnection at a particular point would be considered technically feasible if an ILEC currently provides, or has provided in the past, interconnection to any other carrier at that point, and that all incumbent LECs that employ similar network

²⁴USTA comments at 12; Cincinnati Bell Telephone Company comments at 11; SBC comments at 27 ("ability of support systems to administer, provision, maintain, and order without unique or special handling and/or billing").

 $^{^{25}}$ SBC comments at 27.